

Monday, 11 November 2019

## The Trade Rollercoaster

It never ceases to surprise how quickly sentiment can turn. US share indices hit record highs last week and in Australia, the ASX200 is just 1% from its peak.

It wasn't the only sign that taking risk was back on the table – bond yields clawed back some of their recent declines and gold prices fell, although the Australian dollar has failed to hold above 69 US cents.

Is the trade war over? Are Chinese President Xi and US President Trump best buddies now?

Not quite. However, a “phase-one” deal is expected to be signed and is hoped to be completed by the end of the year.

The deal is reported to include a promise by Chinese authorities to buy around US\$50 billion worth of US agricultural products and toughen protections for intellectual property. There has also been talk of a possible unwinding of the existing US tariffs. However, it doesn't seem as though any of the original grievances that kicked off the trade war in the first place have been resolved. The key issues of subsidies on state-owned enterprises and forced transfer of technology from foreign to Chinese firms are reportedly not included in the deal. Nor has there been any mention of how to deal with the issues surrounding Huawei and other Chinese tech firms.

Nonetheless, the good news comes from the fact that they are talking, and the recent rhetoric from both China and the US is much more conciliatory.

Of greater concern is how businesses respond to the latest developments.

This week, local data includes business and consumer confidence, which will give some guide as to how firms and consumers are faring. It is probably too early to gauge their reaction to the latest global developments, but it will follow increasing media reports urging the government to provide further stimulus, the RBA leaving official interest rates on hold and further signs of recovery in the housing market.

Wages and employment data will also be key data releases this week on Wednesday and Thursday, respectively. A 3.0% increase to the minimum wage took effect from 1 July, but we expect the impact to overall wages to be modest. Wage growth is likely to remain subdued at an annual rate of just 2.4%. It is mostly a reflection of the spare capacity within the labour market.

Indeed, we think that the drop in the unemployment rate in September to 5.2% was a one-off, and that there is a risk that the unemployment rate could edge higher. Firstly, the pace of job growth is expected to moderate given the soft pace of domestic growth. Secondly, an elevated participation rate is expected to prop up the unemployment rate. We expect a job gain of 17.0k and for the unemployment rate to tick back up to 5.3%.

**Janu Chan, Senior Economist**  
Ph: 02-8253-0898

**Forecasts**

End Period:	2019		2020			
	Close (Nov 8)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
<b>Aust. Interest Rates:</b>						
RBA Cash Rate, %	0.75	0.75	0.50	0.50	0.50	0.50
90 Day BBSW, %	0.93	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.93	0.85	0.70	0.70	0.80	0.85
10 Year Bond, %	1.29	1.10	0.90	0.90	1.00	1.10
<b>US Interest Rates:</b>						
Fed Funds Rate, %	1.625	0.625	1.375	1.125	0.875	0.875
US 10 Year Bond, %	1.94	1.70	1.50	1.45	1.40	1.50
<b>USD Exchange Rates:</b>						
AUD-USD	0.6863	0.67	0.66	0.66	0.67	0.67
USD-JPY	109.26	108	107	106	105	105
EUR-USD	1.1018	1.09	1.09	1.10	1.11	1.12
GBP-USD	1.2774	1.30	1.33	1.32	1.32	1.31
NZD-USD	0.6328	0.63	0.62	0.62	0.63	0.63
<b>AUD Exchange Rates:</b>						
AUD-USD	0.6863	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6221	0.61	0.61	0.60	0.60	0.60
AUD-JPY	74.94	72.4	70.6	70.0	70.4	70.4
AUD-GBP	0.5372	0.52	0.50	0.50	0.51	0.51
AUD-NZD	1.0838	1.06	1.06	1.06	1.06	1.06

	2018	2019 (f)	2020 (f)
GDP, %	2.2	2.3	2.4
CPI (Headline), %	1.8	1.7	1.9
CPI (Trimmed mean), %	1.8	1.6	1.9
Unemployment Rate, %	5.0	5.3	5.6
Wages Growth, %	2.4	2.5	2.5

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

## Contact Listing

### Chief Economist

Besa Deda

[dedab@bankofmelbourne.com.au](mailto:dedab@bankofmelbourne.com.au)

(02) 8254 3251

### Senior Economist

Janu Chan

[chanj@bankofmelbourne.com.au](mailto:chanj@bankofmelbourne.com.au)

(02) 8253 0898

### Economist

Nelson Aston

[nelson.aston@bankofmelbourne.com.au](mailto:nelson.aston@bankofmelbourne.com.au)

(02) 8254 1316

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